

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Wednesday, November 17, 2010

The Board of Administration met on Wednesday, November 17, 2010 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:27 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Patricia Clarey
Greg Beatty for Debbie Endsley
JJ Jelincic
Steve Coony for Bill Lockyer
Priya Mathur
Louis F. Moret

Board of Administration Members excused: Dan Dunmoyer, Henry Jones, Tony Oliveira.

AGENDA ITEM 3 - APPROVAL OF AUGUST 2010 MEETING MINUTES

On **MOTION** by George Diehr, **SECONDED** by Greg Beatty, and **CARRIED** that the October 20, 2010 Open Session minutes be approved as presented.

AGENDA ITEM 4 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- Total assets under management as of Monday, November 15 were \$218 billion.
- The Total Fund earned 2.2 percent in October.
- Three new Rapid Results teams formed in June have successfully completed their work. The items of focus were: furthering cost reduction efforts; defining standards and processes for the new investment proposal tracking system; and composite reduction.

Rapid Results related cost savings achieved to date are \$142.5 million. Together
with the special review savings of \$215 million, the Investment Office has now
saved \$357 million in fees over various timeframes.

AGENDA ITEM 5 - INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, November 15, 2010.

Additional information may be found in the November 15, 2010 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for December 13, 2010 in Sacramento, California.

AGENDA ITEM 6 - AD HOC RISK MANAGEMENT COMMITTEE

The Committee did not meet in November.

AGENDA ITEM 7 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Vice President, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, November 16, 2010.

Additional information may be found in the November 16, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

 Adoption of additional contract-related disclosure requirements as set forth in Attachment A and adoption of policy as regulations. The Chair directed staff to add an exemption to the gifts that must be reported under the Policy for meals received while giving a speech that are not reportable gifts under Fair Political Practices Commission (FPPC) rules.

The next meeting of the Benefits and Program Administration Committee is scheduled for December 14, 2010 in Sacramento, California.

Patricia Clarey recused herself from the Health Benefits Committee report and left the room at this time.

Dan Dunmoyer arrived at this time.

AGENDA ITEM 8 – HEALTH BENEFITS COMMITTEE

George Diehr, Vice President, presented the Health Benefits Committee Summary report to the Board. The Committee met on Tuesday, November 16, 2010.

 Additional information may be found in the November 16, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

- Benefit design changes for 2011 required under the Patient Protection and Affordable Care Act (PPACA) of 2010.
- Adoption of the proposed regulations to clarify conditions and limitations pertaining to the eligibility of children and to conform State Regulations to extend dependent coverage up to age 26.

It was reported that 27,800 additional dependents have been added to date under the new regulation.

The next meeting of the Health Benefits Committee is scheduled for December 14, 2010 in Sacramento, California.

Patricia Clarey returned to the room at the conclusion of the Committee report and vote.

AGENDA ITEM 9 – FINANCE COMMITTEE

Lou Moret, Vice Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, November 16, 2010.

Additional information may be found in the November 16, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Agenda Item 5a Fiscal Year 2011-11 Mid-Year Budget revisions:
 - 1. A one-time decrease in FY 2011-11 Administrative Budget of \$15,465,000 and an increase of 13.0 additional positions, funded internally, for a total revised Administrative Budget of \$315,731,000 and 2,330 positions as a first reading.
 - 2. The proposed FY 2010-11 Mid-Year increase of \$15,465,000 to the Enterprise Projects Budget for a total budget of \$36,681,000 as a first reading.

- 3. The proposed FY 2010-11 cost allocation adjustments to the Public Employees' Retirement Fund and other funds as a first reading.
- 4. Transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office and the State and Consumer Services Agency.
- Acceptance of the draft basic financial statements, as audited by Macias, Gini & O'Connell LLP as of and for the year ended June 30, 2010, and approval of the letter of transmittal.

The next meeting of the Finance Committee is scheduled for December 14, 2010 in Sacramento, California.

AGENDA ITEM 10 - AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in September.

JJ Jelincic recused himself from the following Committee report and left the room.

AGENDA ITEM 11 - PERFORMANCE AND COMPENSATION COMMITTEE

Patricia Clarey, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Monday, November 15, 2010.

Additional information may be found in the November 15, 2010 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- The 2010-2011 performance plans for the three recently appointed Portfolio Managers, as a first reading.
- The program policy revisions pertaining to a multi-year methodology for quantitative performance measures at the asset class and portfolio levels.
- The finalists for the Executive Compensation Consultant Spring-Fed Pool, and to defer the awarding of contracts pending finalist interviews to be conducted in December 2010.

The next meeting of the Performance and Compensation Committee is scheduled for December 13, 2010 in Sacramento, California.

JJ Jelincic returned to the room at the conclusion of the Committee report and vote.

AGENDA ITEM 12 – BOARD MEETING CALENDAR

No changes were made to the Calendar.

AGENDA ITEM 13 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

- The Employer Educational Forum held in October was attended by over 500 representatives. The Forum featured presentations on numerous important emerging issues along with 26 exhibits and 42 workshops.
- The Board recently held the Asset Liability Management Workshop to review the outlook of the markets and CalPERS liabilities and investment strategy. As a follow-up to this workshop, the Board will consider a new asset allocation mix at the December 13 Investment Committee meeting. CalPERS staff is focusing on keeping employers advised of potential related impacts on rates.
- CalPERS staff is also focusing on next year's implementation of my|CalPERS and the related organizational changes.
- CalPERS has begun reaching out to the new Administration and new members of the Legislature to offer assistance and support during the transition.

Ms. Stausboll recognized the Actuarial Office staff, which annually produces more than 2,200 separate actuarial valuation reports for local agencies after collecting and validating more than a million participant records. This year, furloughs and new actuarial assumptions presented a particular challenge.

AGENDA ITEM 14 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Dale Jablonsky, Assistant Executive Officer, Information Technology Division, introduced Karen Ruiz, PSR Project Manager, who presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- The project is on track to meet five of six measures that are due on November 30th.
- The sixth measure, system testing, remains stable but productivity has not increased over average levels throughout September and October. A proposal by Accenture for meeting this milestone is under review. Findings will be reported to the Board in December.
- Transition activities for both internal staff and employers are progressing well.

John Nichols, Project Manager, Accenture, provided some highlights of the progress on the recovery effort:

 Accenture plans to maintain staffing levels at full strength through the winter and possibly the spring months to keep pace toward the September 2011 launch goal.

Adam Roy, KPMG, Project Oversight, expressed concern about the high risks currently facing the project and the urgent need for correction actions relating to the project scope and schedule. Project Oversight will reserve judgment until confidential discussions between Accenture and CalPERS conclude and the approved resolutions are shared with the Oversight Team.

AGENDA ITEM 15 – ORGANIZATIONAL STRUCTURE AND PROCESS INITIATIVE UPDATE

Donna Lum, Assistant Executive Officer, Member and Benefit Services Branch, provided an update on the Organizational Structure and Processes Initiative and reported on the following:

- Prior to the Board meeting, a workshop was held to discuss the three major organizational changes: a new functional group focused on policy and product development; a separate functional group dedicated to program services and customer support activities through a single point of contact; and the establishment of a Chief Financial Officer.
- Throughout the next month or so the next level structure will be identified and defined using input from staff and the Board. The results will be presented at the January Board offsite meeting.
- The project team will also evaluate Board relationships to the organization.
- The team is also notifying SEIU of CalPERS organizational restructure and will continue to keep them involved.

AGENDA ITEM 16 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

On November 5th, CalPERS Stakeholder Relations unit hosted another meeting
of the compensation, risk pooling and reciprocity subgroups that are part of the
Public Employee Compensation Committee, and the Benefits Task Force that
were formed after the City of Bell disclosures. In this meeting the Controller's
new website containing all the salary information from cities and counties was
demonstrated.

- Assemblymember Gatto will be reintroducing his reciprocity legislation next year that would require the employer to pay the increased liability if they provide excessive salaries.
- An in-depth briefing on the member home loan suspension proposal is planned for Board members on December 2nd.
- Anne Stausboll and Pat Macht will be in Washington D.C. in early December to meet with representatives from organizations interested in the national retirement security discussion. A summary will be presented to the Board in January.

AGENDA ITEM 17 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- CalPERS communication and outreach plan to the new administration and legislature includes setting up meetings with chairs and vice chairs as well as members of the pertinent committees that deal with CalPERS issues.
- At the local level elections, seven of eight pension reform initiatives passed. Most were lowering pension formulas for new hires.
- CalPERS is working with the Fair Political Practices Commission (FPPC) and the Secretary of State's office to implement the placement agent bill.
- Legislative proposals in the areas of governance, compensation, retirement and administrative improvements are being developed for presentation at the December Board meeting.

AGENDA ITEM 18 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- Despite turnovers in the recent election, the California congressional delegation is expected to continue to maintain a significant presence in both the majority and minority leadership of the House and its many committees.
- Outreach has begun to congressional staff on both sides of the aisle as well as to allies with whom CalPERS works on pension, health and investment issues.
- The co-chairs of the President's Debt Commission have laid out a set of recommendations for consideration by the members of the Commission by

December 1st. A detailed summary of whatever decisions are made that could impact CalPERS and its members will be presented to the Board and staff.

AGENDA ITEM 19 – PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs.

- Opportunities to deliver some positive news about CalPERS recent activities have reduced the number of less favorable media stories over the past two months.
- The Asset Allocation Workshop is being made available on the CalPERS
 website. Also being added to the website is the special Insight conversation that
 was held at the Educational Forum between CIO Joe Dear and Chief Actuary
 Alan Milligan.
- A career opportunities page is being added to the CalPERS website.

AGENDA ITEM 20 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 20A through 20F.

Mr. Mixon requested that 20D and 20E be taken off the calendar to allow the members additional time to present information or argument to this Board.

Ms. Mathur requested that 20C be considered separately.

On **MOTION** by Priya Mathur, **SECONDED** by Patricia Clarey, and **CARRIED**, the Board approved Staff's recommendations on the proposed decisions of Administrative Law Judges for 20A, 20B and 20F.

On **MOTION** by Priya Mathur, **SECONDED** by George Diehr, and **CARRIED**, the Board approved remanding 20C back to the Administrative Law Judge for the taking of additional evidence around the medical issues presented.

AGENDA ITEM 21 – PETITIONS FOR RECONSIDERATION

On **MOTION** by JJ Jelincic, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved Staff's recommendations on 21A through 21B.

AGENDA ITEM 22 - GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

Marguerite Seabourn, Assistant Chief Counsel for Litigation, presented the annual litigation report for CalPERS.

AGENDA ITEM 23 – BOARD TRAVEL APPROVALS

On **MOTION** by Lou Moret, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 24 – DRAFT AGENDA FOR December 15, 2010 MEETING

No comments.

AGENDA ITEM 25 - NEW BUSINESS AGENDA SETTING

No requests.

AGENDA ITEM 27 - PUBLIC COMMENT

No public comment.

AGENDA ITEM 28 - LITIGATION - CLOSED SESSION

The Board of Administration Open Session recessed at 11:15 a.m. and the Board reconvened into Closed Session at 11:25 a.m. to consider a litigation item.

Representatives of the Department of Personnel Administration and the Controller's Office recused themselves from the Closed Session litigation item and left the room.

The Board of Administration Closed Session recessed at 11:45 a.m. and the Board of Administration reconvened into Open Session at 12:30 p.m.

AGENDA ITEM 26 – FIDUCIARY COUNSEL INTERVIEWS

The Board conducted, in alphabetical order, interviews for three finalists for the award of the contract for the Board's outside fiduciary counsel:

- Paul Hastings
- Reed Smith
- Reinhart Boerner Van Deuren

On **MOTION** by George Diehr, **SECONDED** by Priya Mathur, and **CARRIED**, the Board approved directing Staff to enter into negotiations with all three candidates to be in a pool and to either eliminate or significantly reduce the retainer as a condition for Paul Hastings, while keeping the hourly rate competitive.

There being nothing further to come before the Board of Administration, the meeting adjourned at 2:21 p.m.

The next Board of Administration meeting is scheduled for December 15, 2010 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer